

Message Text

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TO SECSTATE WASHDC 2481
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY STOCKHOLM

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DEPT PASS USDOC FOR INVESTMENT POLICY DIVISION

USOECD

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SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: (A) 77 STATE 244738, (B) STATE 37873, (C) 75 HELSINKI 1705

1. SUMMARY. THIS TELEGRAM PRESENTS THE EMBASSY'S UPDATED INVESTMENT CLIMATE STATEMENT FOR FINLAND. WE HAVE USED THE FORMAT SPECIFIED IN REFTEL (A) AND INTEND THAT THE STATEMENT'S CONTENTS FULFILL THE REQUIREMENTS OF REFTEL (B). THE FINNISH GOVERNMENT GENERALLY WELCOMES IMPORT-SUBSTITUTING OR EXPORT-CREATING INVESTMENT THAT BRINGS ADVANCED TECHNOLOGY, CONCENTRATES ON MANUFACTURING, OR IS DIRECTED TOWARD AREAS DESIGNATED AS DEVELOPING. FOREIGN INVESTMENT IN SEVERAL INDUSTRIAL AND COMMERCIAL SECTORS IS PROSCRIBED. SINCE THE EMBASSY'S UNCLASSIFIED

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LAST UPDATE IN 1975 (REFTEL C), THE CLIMATE FOR FOREIGN INVESTMENT HAS CHANGED MAINLY IN TWO RESPECTS: SOMEWHAT CLOSER CONTROLS ARE BEING EXERCISED ON THE TYPES OF INVESTMENTS ENTERING FINLAND, AND WITH THE ECONOMIC DOWNTURN TOTAL NEW INVESTMENTS HAVE DECLINED OVER THE LAST THREE YEARS, A TREND EXPECTED TO CONTINUE THROUGH 1978. END SUMMARY.

2. GENERAL GOVERNMENT ATTITUDE.

THE FINNISH GOVERNMENT GENERALLY WELCOMES FOREIGN DIRECT INVESTMENT THAT IS IMPORT-SUBSTITUTING, EXPORT-CREATING, BRINGS ADVANCED TECHNOLOGY, CONCENTRATES IN THE MANUFACTURING SECTOR, OR IS DIRECTED TOWARD AREAS DESIGNATED AS DEVELOPING. INVESTMENTS IN THE PRODUCTION, SALE OR IMPORT OF ALCOHOL OR IN RAILWAYS, AIRLINES, BROADCASTING, COASTAL SHIPPING, REAL ESTATE DEALING, TRADING IN FOREIGN CURRENCY, ATOMIC ENERGY PRODUCTION, OIL REFINING, MINING, BANKING, INSURANCE OR THE BASIC FOREST INDUSTRIES ARE NOT ALLOWED. FOREIGN OWNERSHIP THAT EXCEEDS 20 PERCENT OF SHARE CAPITAL OF COMPANIES OPERATING OUTSIDE THE ABOVE PROSCRIBED FIELDS MUST BE APPROVED BY THE MINISTRY FOR TRADE AND INDUSTRY. PROPOSED TAKEOVERS OF EXISTING COMPANIES ARE CLOSELY EXAMINED AS TO BENEFITS ACCRUING TO FINLAND. CAPITAL IMPORTS, WHETHER LOAN OR SHARE CAPITAL, ARE SUBJECT TO BANK OF FINLAND APPROVAL, AS ARE CAPITAL REPATRIATIONS AND OTHER CURRENCY FLOWS FROM FINLAND. THE BANK NORMALLY GRANTS APPROVAL FOR CAPITAL, DIVIDEND AND ROYALTY TRANSFERS. ALSO INVOLVED IN GRANTING APPROVAL OF FOREIGN INVESTMENT IS THE MINISTRY OF LABOR, WHICH IS CONSULTED CONCERNING LOCATION AND EMPLOYMENT

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EFFECTS. FOREIGN COMPANIES, ONCE CHARTERED IN FINLAND, ARE ELIGIBLE FOR ALL GOVERNMENT SUBSIDIES AND SUPPORT PROGRAMS AVAILABLE TO FINNISH COMPANIES.

3. ECONOMIC FACTORS.

OTHER THAN IN THE EXTRACTIVE INDUSTRIES, FINNISH INDUSTRIAL DEVELOPMENT HAS BEEN CONCENTRATED IN THE SOUTHERN PART OF FINLAND. PROGRAMS TO ENCOURAGE INDUSTRIAL DEVELOPMENT IN THE LESS INDUSTRIALIZED PARTS OF FINLAND HAVE BEEN ESTABLISHED BUT HAVE MET WITH ONLY MODEST SUCCESS, IN PART BECAUSE OF THE DEPRESSED STATE OF THE FINNISH ECONOMY DURING THE LAST THREE YEARS. CURRENTLY, FINLAND IS EXPERIENCING PERSISTENTLY HIGH INFLATION, LOW GDP GROWTH AND INCREASING UNEMPLOYMENT, NOW ABOUT NINE PERCENT OF THE WORK FORCE. THE VOLUME OF INDUSTRIAL INVESTMENT FELL 15 PERCENT LAST YEAR AND IS EXPECTED TO DROP A FURTHER 25 PERCENT THIS YEAR TO THE LOWEST RATE SINCE THE 1950'S. THERE IS SUBSTANTIAL IDLE CAPACITY IN MANUFACTURING. EXPORT SALES WHICH ACCOUNT FOR 25 PERCENT OF GDP, ARE GENERALLY STAGNANT.

4. FINANCIAL INCENTIVES.

THERE ARE NO INCENTIVES AVAILABLE SPECIFICALLY FOR FOREIGN DIRECT INVESTMENT, BUT ALL FIRMS REGISTERED IN FINLAND HAVE EQUAL ACCESS TO GOVERNMENT SUBSIDIES AND DEVELOPMENT PROGRAMS. THE AREA DEVELOPMENT PROGRAM PROVIDES INVESTMENT, START-UP AND TRAINING GRANTS FOR MANUFACTURING AND CERTAIN OTHER INDUSTRIES WITHIN SPECIFIED GEOGRAPHICAL AREAS. SUPPLEMENTING THESE GRANTS ARE TAX INCENTIVES WITH RESPECT TO DEPRECIATION, LOCAL TAXES AND REAL ESTATE STAMP TAXES. IF PRODUCTS ARE SHIPPED MORE THAN 266 KMS., TRANSPORTATION SUBSIDIES ARE AVAILABLE COVERING FIVE TO 46 PERCENT OF COSTS. APPLICATION MUST BE MADE TO UNCLASSIFIED

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THE MINISTRY FOR TRADE AND INDUSTRY PRIOR TO ACTUAL INVESTMENT TO RECEIVE THESE SUPPORT PAYMENTS.

5. DEVELOPMENT POLICY.

ALL FOREIGN DIRECT INVESTMENTS ARE CAREFULLY SCRUTINIZED AS TO THEIR EFFECTS ON THE FINNISH ECONOMY. PROPOSED INVESTMENTS THAT WILL SUPPORT MANUFACTURING ENTERPRISES ARE MORE LIKELY THAN INVESTMENTS IN SALES AND SERVICES TO RECEIVE GOVERNMENT APPROVAL. FINANCIAL

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INCENTIVES UNDER THE AREA DEVELOPMENT PROGRAM ARE DESCRIBED IN THE PRECEDING PARAGRAPH. FOREIGN CONTROL OF REAL ESTATE IS CHECKED BY RESTRICTIONS ON OWNING LAND OR HOLDING LEASES FOR LONGER THAN TWO YEARS WITHOUT EXPLICIT GOVERNMENT PERMISSION. LEASING RATHER THAN ACQUISITION IS STRONGLY ENCOURAGED.

6. LABOR FORCE.

FINLAND'S HIGHLY SKILLED LABOR FORCE IS WELL ORGANIZED AND UNION-ORIENTED. LABOR CONTRACTS ARE UNIVERSAL, AND INDUSTRYWIDE CONTRACT NEGOTIATIONS COVER A WIDE RANGE OF TOPICS. NON-WAGE BENEFITS ARE GETTING INCREASING ATTENTION IN CONTRACT NEGOTIATIONS AS REAL NET PERSONAL INCOME HAS DECLINED FOR THE SECOND YEAR IN A ROW.
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FINLAND CURRENTLY SUFFERS FROM NINE PERCENT UNEMPLOYMENT, AND THIS IS CONTINUING EMIGRATION OF SKILLED LABOR TO SWEDEN.

7. OWNERSHIP POLICY.

UNLESS SPECIFICALLY EXEMPTED BY THE MINISTRY FOR TRADE AND INDUSTRY, ALL COMPANIES CHARTERED IN FINLAND MUST INCLUDE A CLAUSE IN THEIR ARTICLES OF INCORPORATION LIMITING FOREIGN OWNERSHIP OF VOTING STOCK TO 20 PERCENT. COMPANIES CHARTERED WITHOUT A "FOREIGNERS" CLAUSE MAY BE FULLY FOREIGN CONTROLLED, BUT ARE SUBJECT TO REAL ESTATE CONTROL RESTRICTIONS. GUIDELINES FOR OWNERSHIP LIMITS IN VARIOUS INDUSTRIES ARE IN THE PROCESS OF BEING FORMULATED. CURRENTLY LIMITS HAVE BEEN SUGGESTED FOR TRANSPORTATION AND FORWARDING COMPANIES (20 PERCENT), HOTEL AND RECREATIONAL SERVICES (20 PERCENT) AND UP TO 49 PERCENT IN CLEANING SERVICES. FOREIGNERS MAY SERVE AS MANAGING DIRECTORS OR CHAIRMEN OF THE BOARDS OF COMPANIES CHARTERED IN FINLAND ONLY WITH THE APPROVAL OF THE MINISTRY FOR TRADE AND INDUSTRY. FORMAL APPLICATION MUST BE MADE TO THE COMMISSION FOR FOREIGN INVESTMENT.

8. OPIC PROGRAMS.

OPIC PROGRAMS DO NOT APPLY TO FINLAND.

9. POTENTIAL CHANGES IN INVESTMENT POLICIES.

THE GOVERNMENT IS CURRENTLY FORMULATING A PROGRAM OF ECONOMIC MEASURES TO DEAL WITH THE CONTINUING RECESSION. WHILE SOME OF THE LEADING GOVERNMENT FIGURES FAVOR STEPS TO ENCOURAGE INVESTMENT, SUCH INCENTIVES ARE LIKELY TO BE RATHER LIMITED IN UNCLASSIFIED

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VIEW OF THE GOVERNMENT'S CURRENT DIFFICULTIES IN RAISING REVENUES.

10. STATISTICAL INFORMATION.

FOREIGN DIRECT EQUITY INVESTMENT IN FINLAND, DECEMBER 31, 1976 (MEASURED AS NOMINAL SHARE VALUE)

	TOTAL	SWEDEN	USA	UK	SWITZERLAND
FMK MILLIONS					
(\$1.00 EQUALS					
FMK 4.225)	1,102	407	238	106	92
PERCENT	100.0	37.0	21.6	9.6	8.4

NEW US INVESTMENT IN FINLAND IN 1977 WAS ABOUT FMK 12 MILLION, ACCORDING TO AN OFFICIAL OF THE BANK OF FINLAND, THE SOURCE OF THESE STATISTICS. INVESTMENT FIGURES FOR THE UK AND SWITZERLAND MAY ALSO INCLUDE INVESTMENTS MADE BY US SUBSIDIARIES LOCATED IN THOSE COUNTRIES. BOOK VALUE OF FOREIGN INVESTMENTS IS NOT CURRENTLY RECORDED OR ESTIMATED BY THE FINNISH GOVERNMENT.

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